

The Nunn, Bellmon, Chiles proposal differs from both the traditional reform measures and more stringent reforms in that it is aimed at creating new political incentives among the electorate. As such, it could be more effective in achieving balanced budgets and slowing expenditure growth than an unbiased multiyear targeting approach. It is also more flexible than the mandated prohibition proposals.

Sunset Legislation

So-called "sunset bills" would bring about two major changes in the present budgetary process. First, by requiring automatic termination of programs that fail to be reauthorized on fixed schedule, the sunset concept would end permanent authorizations and shift the burden of proof from those who want to eliminate programs to those who desire their retention. Second, by requiring programs with similar objectives to be reauthorized during the same session of the Congress, sunset bills would attempt to facilitate an elimination of overlapping and duplicating programs.

Under one proposal for sunset legislation (S. 2), which passed the Senate during the 95th Congress, most tax and spending programs would come up for scrutiny, review, and reauthorization on a regular timetable. ^{10/} Congressional decisions to retain, scrap, or modify programs would be aided by a series of analyses provided by Executive and Congressional agencies. Most importantly, the reauthorization cycle would be organized so that all programs in a given subject area (health, education, and so forth) would be considered at the same time.

Many of the proponents of sunset legislation believe that its implementation would lead to slower growth of federal spending. Others doubt this, since most programs covered by the bills under consideration already must be reauthorized periodically. Those spending reductions that did occur most likely would be the result of the improved information required by the process rather than any mandated limitations.

^{10/} A version of this proposal--H.R. 2--was introduced in the 97th Congress by Representative James Blanchard. An alternative version--H.R. 58--was introduced by Representative Gillis Long.

Measures to Make the Budget More Comprehensive

In a representative system of government, public opinion cannot check spending if that spending is hidden from view. Two ways of hiding expenditures are granting federal entities off-budget status and substituting federal credit assistance for direct federal outlays. The traditional reforms to overcome these problems are putting off-budget agencies back into the budget and creating a mechanism--such as a credit section in budget resolutions--that would allow the Congress to make conscious decisions about the proper level and mix of federal credit activity.

Put the Off-Budget Agencies Into the Budget. Off-budget federal agencies are federally owned and controlled entities whose financial transactions have been legislatively excluded from the totals of the unified budget. There are currently five off-budget federal entities--the Federal Financing Bank (FFB), the Strategic Petroleum Reserve account, the Postal Service fund, the U.S. Railway Association, and the Synthetic Fuels Corporation. In fiscal year 1981 these agencies spent \$21.0 billion, mostly through the FFB. Including these entities in the budget totals would increase outlays and the budget deficit by that amount. 11/

To achieve off-budget status, an activity must be so classified by law. Off-budget status, however, is an aberration in current budgetary policy. In 1967, the President's Commission on Budget Concepts recommended that an integrated and comprehensive statement of government accounts be used. A "unified budget," according to the Commission, would function as an information and reporting system and as an indispensable tool in making allocation decisions. The Commission was emphatic about the need for including in the unified budget all activities of the federal government. 12/

Despite this strong recommendation, the Congress excluded a number of agencies from the budget totals in succeeding years. The exemption from the budget totals became a special advantage in

11/ The public debt would be unchanged, however, since the spending of off-budget entities already requires borrowing from the public.

12/ Report of the President's Commission on Budget Concepts, (October 1967), p. 25.

the period when President Nixon impounded funds to keep federal spending below various ceilings. By keeping programs out of the budget totals and thus "out of sight," advocates hoped to keep their programs out of mind when impoundments were considered.

Since the passage of the Congressional Budget Act of 1974, challenges to off-budget entities have been made on two fronts. First, a number of bills have directed that specific off-budget entities be recorded in the budget. In 1976 an amendment to the Export-Import Bank Amendments put that agency's financial dealings in the budget. Provisions in the appropriations bills for fiscal years 1978 and 1979 for the Department of Housing and Urban Development (HUD) required inclusion of the Housing for the Elderly or Handicapped Fund in the unified budget. The Exchange Stabilization Fund Expense Act, passed in 1977, requires that the administrative expenses of the monetary activities of the Exchange Stabilization Fund be included in the unified budget and be subject to appropriation. A number of bills were introduced in the 95th Congress to put the Federal Financing Bank on budget.

Second, the House Budget Committee has consistently recommended that all off-budget agencies, with the possible exception of the Exchange Stabilization Fund and the FFB, be included in the unified budget. Representative Holt has introduced a bill (H.R. 325) in the 97th Congress that would achieve a generic solution to the problem by putting all off-budget agencies back onto the budget beginning in fiscal year 1983. ^{13/} Senator Proxmire and Representative Gradison have introduced companion bills--S. 2162 and H.R. 5925--that would eliminate the off-budget status of the FFB, require the Director of the Office of Management and Budget (OMB) to show the budgetary impact of FFB activity in the accounts of the agencies originating the activity, and require all agencies to present their borrowing requirements to the Treasury before seeking other avenues of raising money. ^{14/}

^{13/} Representative Bethune has introduced a similar bill--H.R. 5109.

^{14/} Under current accounting procedures, when the FFB purchases loans from a federal agency the only resulting outlay shown on the federal books is for the off-budget FFB. The original provision of the loan by the agency is cancelled by its sale of the loan asset to the FFB, thus obscuring where the federal assistance was rendered.

TABLE 4. NEW COMMITMENTS FOR FEDERAL CREDIT ACTIVITIES (By fiscal year, in billions of dollars)

New Commitments	1976	1977	1978	1979	1980	1981	Percentage Growth 1976-1981
On Budget							
Direct loans	20.6	25.3	35.2	33.9	39.6	40.9	98.5
Off Budget							
Direct loans	14.7	20.5	23.1	17.5	23.6	31.5	114.3
Guaranteed loans <u>a/</u>	<u>26.1</u>	<u>58.8</u>	<u>55.0</u>	<u>86.9</u>	<u>82.2</u>	<u>76.5</u>	<u>193.1</u>
Total	61.4	104.6	113.3	138.3	145.4	148.9	142.5

a/ Amounts shown are new commitments for primary guarantees. Secondary guarantees and agency guaranteed loans held as direct loans by the FFB are deducted from gross loan guarantee commitments to avoid double-counting. See Budget of the United States Government, Fiscal Years 1977-1983, Special Analysis on Federal Credit.

Control Federal Credit Programs. Federal credit assistance includes direct loans and guaranteed loans. The new commitments for each of these credit activities since fiscal year 1975 are set out in Table 4. Of the \$151.5 billion in new credit commitments that were made in fiscal year 1981, only one-quarter were originated by on-budget agencies.

Since the implementation of the Congressional Budget Act, new federal credit commitments have increased at a much faster rate (142.5 percent between fiscal years 1976 and 1981) than have federal expenditures. This increase, moreover, has been concentrated in off-budget activities; while on-budget direct loans rose by 98.5 percent, direct loans by off-budget agencies rose by 114.3 percent and off-budget loan guarantees increased by 193.1 percent. It would appear, therefore, that as the Congressional Budget Act's

new procedures restrained unified budget spending, the pressure for a larger public sector found an outlet in off-budget expenditures. 15/ 16/ 17/

To gain control over this burgeoning credit activity, the Congress has established a separate section in their concurrent resolutions on the budget to set targets for gross direct lending and gross new loan guarantees. These targets were established for the aggregate and the 19 budget functions. The first concurrent resolution for fiscal year 1983 requires that these targets be allocated to the various Congressional committees (following the procedures used for ordinary spending as outlined in sections 302(a) and (b) of the Budget Act). All newly authorized credit activity must be subject to an appropriation.

Other Proposals to Provide More Budgetary Information

Many bills have been introduced in recent years to require Executive and Congressional agencies to produce more and better budgetary information. In 1978, for example, at the request of the Senate Appropriations and Budget Committees, CBO agreed to produce estimates of the impact on inflation for a selected number of bills each year. In 1981 the Congress amended the Budget

15/ The reallocation of credit resources through federal action can also have economic effects, perhaps as great as those of direct expenditures.

16/ Other countries have experienced similar shifts to off-budget borrowing following the tightening of their budget procedures. In 1975 Canada instituted a system of budget control targets. Since that year, "off-budget borrowing by major Crown Corporations has grown from virtually zero in 1975-76 to \$1.2 billion in 1979-80 while loans, investments and advances included in government outlays fell from 7.5 percent of outlays in 1975-76 to only 2.3 percent in 1979-1980." Canadian Government, Controlling Public Expenditures --the Canadian Experience (paper prepared for OECD seminar "Controlling Public Expenditures," Paris, May 1980), p. 6.

17/ Another factor spurring the growth of these programs is the increasing attractiveness of the subsidized interest rates in many of them as market interest rates rose.

Act (in P.L. 97-108) to require CBO to produce multiyear estimates of the costs incurred by state and local governments in carrying out or complying with new federal legislation. Bills have also been introduced that would require the Treasury Department to produce annual consolidated financial statements for the U.S. government, the Executive Branch to prepare economic impact statements on proposed rules and regulations, and CBO to produce weekly totals of the average cost for each taxpaying family for newly introduced bills.

Each of these proposed measures is aimed not only at providing better information for Members of Congress so that they can judge the usefulness of bills in light of their costs, but also at giving voters the information needed to hold their representatives accountable. As such, these reforms are unlikely to change present budgetary patterns dramatically.

Simplifying Budgetary Procedures

During the past few years, budgetary issues have come to dominate Congressional activity. Increasingly, many Members have begun to feel that the constant demands of the budget process are consuming time needed to study, debate, and enact other legislation. Additionally, as budget resolutions and reconciliation bills have constituted more of the House and Senate workload, many Members have complained about the confusion caused by varying sets of budget estimates and economic assumptions. In response to these complaints, several Members have suggested modifications to the budget process that would:

- o Ease the budget workload, and
- o Clarify the budget debate by obtaining agreement among the various budgetary participants on economic assumptions.

Institute Biennial Budgeting. Following the practice of several states, it has been suggested that the Congress move to a two-year budget cycle. Such a procedure would eliminate the necessity of attempting to examine each federal program every year. Many contend that, in practice, the Congress cannot examine every program in detail every year. By attempting to do so, the Congress uses time that could be allocated to thorough review of the programs that are of vital importance to the budget agenda

at the time. The advocates of biennial budgeting believe that it would enable the Congress to manage its workload better. As with multiyear targeting, biennial budgeting would be flexible, permitting the House and Senate to take up any budget matter in either year.

Obtain Agreement on Common Economic Assumptions. During the 1981 budget debate, many Members complained that the array of economic assumptions used for various alternatives caused needless confusion. The variety of sets of economic assumptions made it almost impossible for Members to judge the policy differences among the various proposals. To overcome this problem, some have suggested that the two Budget Committees should agree on a common set of economic assumptions as a baseline. Individual Members, however, would still be free to use other sets of assumptions if they believed that their proposals would change future economic conditions. But at least one set of common assumptions would be available so that Members could compare the policy differences among alternatives.

Three alternatives have been suggested for creating common economic assumptions. The first would require the majority and minority leadership of the Budget Committees to meet and agree on a compromise set of assumptions. The second would use a simple formula to create economic assumptions, based on an extrapolation of past economic performance. ^{18/} The third alternative would use a standardized set of economic indicators--such as those that would result from a constant unemployment rate--to cost out the various alternatives. ^{19/}

^{18/} For example, Rudolph Penner has suggested that, beyond the first year of the assumptions (which would be set by a consensus forecast), the projections of real growth in the economy and inflation be based on the average experience of the previous five years. See Rudolph G. Penner, "Budget Assumptions and Budget Outcomes," The AEI Economist (Washington, D.C.: The American Enterprise Institute, August 1981).

^{19/} See Charles L. Schultze, "Comments on: Forecasting Budget Totals: Why Can't We Get It Right?, by Rudy Penner," (paper presented at the Committee for a Responsible Federal Budget's Symposium on the Fate and Future of the Congressional Budget Process, Princeton, New Jersey, June 12, 1982).

Eliminate the Second Budget Resolution. Since changing economic conditions have required three or more budget resolutions in each of the last six fiscal years, many Members have advocated eliminating the requirement that a second budget resolution be enacted by September 15th of each year. Under such a procedure, the aggregate targets of the first budget resolution would become binding budget authority and outlay ceilings and revenue floors at the beginning of the fiscal year. 20/ This procedure was included in the first concurrent resolution on the budget for fiscal year 1983. Congress still could modify the first resolution by adopting second, third or even fourth budget resolutions should changed economic or political conditions warrant them.

INCREASE THE AUTHORITY AND INFLUENCE OF THOSE
REPRESENTATIVES AND INSTITUTIONS MOST LIKELY
TO LIMIT FEDERAL SPENDING OR BALANCE THE BUDGET

Before the mid-1960s, the appropriations and taxing committees of the Congress attracted and recruited relatively conservative Members, who were assigned to subcommittees in which they could not enhance the vested interests of their districts. 21/ The Congressional reforms of the last decade or so have changed this pattern. Committee assignments are now largely determined by votes within the Democratic Caucus and the Republican Conference. Subcommittee assignments are determined largely by a combination of seniority and request. The authority of committee chairmen and, to some extent, the House and Senate leadership,

20/ The budget act specifies that only the second resolution on the budget be "binding." Binding here means that any bill that would breach the spending ceiling or tax floor of the resolution could be blocked by a single Member's objection.

21/ Richard Fenno, The Power of the Purse: Appropriation Politics in Congress (Little Brown and Company, 1966), pp. 138-143. For example, Representative John Taber, Ranking Minority Member of the House Appropriations Committee, was quoted by Fenno in the early 1960s: "I'd rather put a man on a subcommittee where he doesn't have any special interests. If a man has a Navy yard in his district, I would not put him on [the] Military Construction [Committee]. I'd rather not put a farmer on the Agriculture Subcommittee. He couldn't see things so clearly."

has declined. During this same period, the ability of the traditional spending and taxing committees to limit spending has also declined.

Although it would go against the dispersal-of-power goals of the reforms adopted over the last decade, one option for achieving annually balanced budgets and slowing the growth of expenditures would be to assign to the budget, appropriations, and taxing committees those members of each political party who would be least likely to enhance the special interests of their districts through committee or subcommittee membership.

Increase the Authority of the Budget Committees

If past patterns hold, it is likely that over time the Budget Committees will attract Members who are interested in limiting spending and balancing the budget. Increasing the authority and influence of the Budget Committees would enhance the probability of achieving these goals. Two suggested proposals to enhance the Budget Committees' influence are discussed below.

Make Membership on the House Budget Committee Permanent. Currently members of the House Budget Committee (HBC) cannot serve for more than six years of a ten-year period. ^{22/} In addition, five members of the HBC must also serve on the House Appropriations Committee, five on the Ways and Means Committee, and one member each from the leadership of each party. Some have argued that, as long as the HBC has rotating and representative membership, committee members will not develop loyalty to a set of committee goals and expectations. This view holds that today HBC members represent mainly the various groups of the House. Permanent membership, it is believed, would create a group of Congressmen whose loyalty would be to committee goals of guarding the Treasury and eliminating deficits. The opposite view stresses the need for the HBC to represent the various groups in the House, so that it will not become a supercommittee, dictating budget policy to the other committees.

^{22/} Unless they are elected chairman in their fifth year of service, in which case they can serve eight of ten years.

Expand the Use of Reconciliation. Reconciliation consists of a process and a piece of legislation. The reconciliation process refers to the procedures that are used to bring about the enactment of a reconciliation bill. The process begins with a set of reconciliation instructions. These instructions, contained in budget resolutions, mandate that various committees of the House and Senate report out legislation by a certain date that achieves certain money targets. The various committees are free to achieve the savings (or in the case of the tax committees, the additional revenues) from the legislation under their jurisdictions as they see fit. Once the committees approve their changes, the Budget Committees of each chamber consolidate them into a reconciliation bill. That bill is then sent to the floor for debate and approval.

When the Budget Act was passed, it was assumed that the reconciliation process would be invoked in the second budget resolution. At that time adjustments would be made in appropriations bills recently passed to make them conform to the second resolution. It quickly became evident, however, that the second resolution came too late in the Congressional session to allow the other committees of the Congress enough time to make the required necessary changes in the programs under their jurisdictions. This was true not only for the Appropriations Committees but especially for the legislative committees that had jurisdiction over the major entitlement programs. Beginning with the fiscal year 1981 budget, therefore, reconciliation has been invoked with the first budget resolution. Because, under the budget process, appropriations bills cannot come to the floor of either chamber until the first concurrent resolution has been passed, moving reconciliation from the second to the first resolution has shifted the burden of reconciliation cuts from those programs whose funds are appropriated annually to those programs--mostly entitlements granting payments to individuals--whose spending levels are set by the rules contained in their authorizations. 23/

23/ In the Omnibus Reconciliation Act of 1981 (P.L. 97-35) the Appropriations Committees were affected by a reconciliation act enacted before the passage of most appropriations bills. This was accomplished by requiring the legislative committees to amend laws within their jurisdictions to lower authorizations of appropriations (which place an upper limit on the amount of budget authority that can be granted in the appropriations process for programs). By lowering the limit

During the last three budget cycles, the Congress has successfully implemented its reconciliation process to achieve significant reductions in expenditures and to raise additional revenues. At the least, it would appear that the reconciliation process provides the most effective existing procedure to reduce the growth rate of federal spending and to eliminate federal budget deficits. At most, a case can be made that the expanded use of reconciliation would eliminate the need for an expenditure limitation or a balanced budget amendment.

The current reconciliation process contains three great advantages for Members who are interested in reducing federal expenditures. First, it makes possible changes in the type of program--entitlements--that has been primarily responsible for the growth in domestic federal spending over the past two decades.

Second, reconciliation instructions provide a tool to force action. Because most entitlements either have a permanent or a multiyear authorization, in the past the opponents of reducing federal domestic expenditures simply had to prevent legislative changes in order to maintain the service levels of their favorite programs. This is in sharp contrast with programs that require annual appropriations. In the latter case, advocates of continued spending must pass a law in order to attain desired spending levels. Reconciliation provides a way for each House as a whole to force the program advocates to act on authorizations during periods of budget constraint. As such, it is a major tool to convert formerly "uncontrollable" into "controllable" spending.

Finally, by grouping many changes into a single bill, the reconciliation process has the potential to shift the political debate from the merits of the parts to the virtue of the whole. As set out in the next chapter, those who believe that the current system is biased toward ever greater levels of spending point to the fact that, while the recipients of a federal subsidy will work

below the prior year's appropriations, the reconciliation act, in effect, forced the appropriations committees to make reductions. Given the negative reaction by many Members to this procedure, however, it is unlikely that it will be used again in the near future. One can expect, therefore, that future reconciliation acts will be directed mainly at changes in tax and entitlement legislation.

very hard to obtain, maintain, and enhance their payment, the individual taxpayer will not try to eliminate the few dollars a single subsidy will add to his tax bill. But by grouping many subsidies into a single bill, the individual taxpayer can see the total cost and may be motivated to fight for a fairly large tax reduction (or to prevent a fairly large tax increase). Under such circumstances, the debate between those desiring subsidies and those wanting lower taxes is more balanced.

This concentration on the merits of the entire package is especially evident when, as in 1981 the Congress voted on packaged substitutes to the whole reconciliation bill rather than amendments to individual program provisions. Those who seek to achieve lower federal spending, therefore, would benefit from a requirement that all floor modifications to a reconciliation bill be in the form of substitutes.

CHAPTER IV. LEGISLATIVE AND CONSTITUTIONAL OPTIONS THAT WOULD REQUIRE BALANCED BUDGETS OR LIMIT EXPENDITURE GROWTH

An increasing number of Members of Congress and observers of the budgetary process believe that the perceived ills of the current system cannot be cured by more and better information and requirements that decisionmakers take public positions on budgetary questions. They feel that such procedural reforms will not help because the system itself is biased. According to this view, the unrestricted discretion of the federal government to choose the size and means of financing the budget leads to excessive governmental growth and deficits. To correct this bias, these critics advocate statutory or Constitutional limits on expenditure growth and deficits, change from simple majorities to larger concurrent majorities--such as three-fifths, two-thirds, or three-fourths--or some combination of these more stringent mechanisms.

THE PROBLEM: SYSTEM BIAS IN FAVOR OF INCREASED EXPENDITURES AND DEFICITS

Critics of the current budgetary process contend that the principal cause of the system's bias is the concentrated benefits and diffuse costs associated with each government program and policy. Since the direction of the bias is toward higher and higher levels of expenditures, the bias, accompanied by relatively successful control over the growth of revenues, leads to persistent deficits.

While each federal outlay yields benefits to someone, the distribution of benefits from specific programs is quite uneven, with some individuals benefiting greatly, and others only a little, if at all. Because the cost of any single government outlay, by contrast, is spread out more evenly across all taxpayers, it is very low for each individual taxpayer. Thus, an expenditure that provides large benefits to a few people may cost the average taxpayer less than a penny a day. 1/

1/ The concentrated benefits-dispersed cost theorem is also applicable to tax legislation. The recipients of a tax expenditure will work hard for its creation or expansion while the average taxpayer will not be motivated to oppose it. To the extent that this is the case, federal revenues will be lower than otherwise would be the case and deficits will be higher.

Consider a hypothetical program, for example, through which the government subsidized a particular industry on the grounds that it would be useful to have it in operation in the event of war. If the subsidy were \$500 million annually, and about 50,000 people worked in this or direct-support industries, the subsidy would amount to about \$10,000 per worker per year. In contrast, the cost of the subsidy would be less than a cent a day for each taxpayer. In return the taxpayers might enjoy a better defense.

If the subsidy were to be withdrawn, those employed in this industry would have to move into other lines of work, earn less, or both. Moreover, because of the potential gains, those connected with the industry--employers and workers--would be willing to expend large amounts of time, energy, and money to persuade policymakers of the need to enlarge the subsidy. Without effective opposition, these efforts would probably succeed. Those who believe that the present system is biased feel that there would be no effective opposition from the general public, the bureaucracy, other interest groups, or elected officials.

The general public would not oppose the increased subsidy because a large percentage increase in one subsidy would only slightly affect the tax bill of the average taxpayer. Even a 50 percent increase in the hypothetical defense industry subsidy would only increase taxes \$2.70 per taxpayer per year. Thus, the average taxpayer probably would be willing to support--or at least not oppose--the increase. But what if 200 subsidy programs were increased by the same amount? Then the taxpayer, who would not oppose any single increase, would be most unhappy with the total increase. Instead of a \$2.70 tax increase, his taxes would rise by \$540. Thus, a pattern develops in which voters approve or acquiesce to individual program growth but object to the sum of total program growth.

The bureaucracy would not oppose the increased subsidy because, say the critics, the chief measure of a bureau's success is the growth of its programs. As long as the budgetary growth of one program does not occur at the expense of the budgets of other programs, it is not in the interest of any bureaucracy to increase conflict through opposition. In fact, many critics see the bureaucracy as a major factor in the growth of government expenditures since increasingly ideas for new programs are developed within the government itself.

Other interest groups would not oppose the increased subsidy for the same reason as the bureaucracy--namely, as long as an increase in one area does not mean a decrease in another, there is little incentive for an uninvolved group to endure the conflict opposition would engender. In fact, many critics point to the growing number of organized interest groups as a major factor behind the increase of federal expenditures. Not only has the number of interest groups grown, but they have become increasingly organized and sophisticated in using modern public relations techniques to mobilize the beneficiaries of subsidies to apply pressure on elected officials.

Finally, say the critics, elected officials are placed in an increasingly difficult position. If they champion a cutback in outlays for any particular program, they encounter the strenuous opposition of the program's major beneficiaries. Frequently, this opposition takes the form of single-issue voting whereby those affected oppose the officials' reelections regardless of their actions on other issues. For their trouble, public officials will receive the lukewarm approval of taxpayers whose taxes may have been reduced a dollar or two per year.

Removal of Past Restraints

Until fairly recently, the bias of representative government toward expenditure growth and deficits was restrained by two important factors:

- o The deeply held belief that budgets should be balanced, and
- o The power of institutions such as the Presidency, the Office of Management and Budget (OMB), the Congressional leadership, and political parties, which traditionally acted as brakes against the pressures of special interests.

Balanced Budget Rule. For most of America's history, the most effective restraining force on the growth of expenditures and deficits was the moral rule that budgets should be balanced. During the last 40 years, however, for reasons ranging from new theories about the proper role of fiscal policy, to new views of

the proper role of the national government in guaranteeing such rights as a job, health care, education, and a minimum level of income, to simple political expediency, the balanced budget rule has become less powerful. 2/

Budgeting is necessary to allocate limited resources. The advantage of the balanced budget rule is that it is relatively easy to understand and gives public officials a fairly specific notion of the amount of resources the government has to work with.

But this rule is also inflexible and much of the debate over proposed changes to the budget process involves disagreements of whether such inflexibility is or is not beneficial. While most economists see the flexibility of the current budget process as a virtue, many critics see it as a driving force behind expenditure growth and deficits.

When the balanced budget rule is relaxed so that the budget margin can be used to influence the economy, the amount of resources available to the government becomes a moving figure rather than some fixed amount. Both economic and budgetary critics of the present system attack the idea--widely accepted by most economists--that the budget is an appropriate tool of economic stabilization policy. On economic grounds, critics see discretionary fiscal policy as creating more economic problems than it solves. Most economists who favor a Constitutional amendment requiring a balanced budget do so, in part, because they believe that fiscal policy is destabilizing.

On budgetary or programmatic grounds, discretionary fiscal policy is seen as an escape valve that not only leads to increased deficits but also to expenditure growth. Concepts such as the full-employment budget are attacked on the grounds that, since economists cannot agree over time as to exactly what full employment is and since for structural reasons the economy rarely reaches full employment, deficits can be justified throughout

2/ See, for example, James M. Buchanan and Richard E. Wagner, Democracy in Deficit: The Political Legacy of Lord Keynes (New York: Academic Press, 1977); the essays in James M. Buchanan and Richard E. Wagner, eds., Fiscal Responsibility in Constitutional Democracy (Boston: Martinus Nijhoff, Social Science Division, 1978); and Herbert Stein, The Fiscal Revolution in America (University of Chicago Press, 1969).

economic cycles. ^{3/} Many economists counter that full-employment budgets are simply a means of measuring discretionary fiscal policy and as such, are mere yardsticks without political bias.

Declining Power of Institutions. In the past, institutions such as the Presidency, OMB, Congressional leadership, and political parties restrained budgetary growth by forcing competition among special interests. Public officials could fend off special interest pressure by saying that while they personally wanted to do X or Y they just couldn't because the President, OMB, their leadership, or their party would not let them.

Many observers believe that the power of each of these institutions has declined in recent years. The Vietnam War and Watergate severely undermined Presidential power. Some scholars perceive OMB as a shadow of the old Bureau of the Budget. Recent reforms have continued the dispersal of power within the Congress. Finally, the institution that many political scientists would point to as the most important bulwark against special interests--the political party--is experiencing severe difficulty. In recent years, party loyalty among voters and elected officials has declined dramatically. Split-ticket voting has risen to an all-time high and party voting in the Congress has declined to a 30-year low. Thus, each elected official is increasingly judged by the voters on his or her qualifications. While this is an admirable change in many respects, it does mean that each public official must face interest group pressures alone, a situation that many observers think has left officials increasingly susceptible to such pressures.

Statutory Versus Constitutional Prohibitions

Those who feel that the system bias is so strong as to overwhelm traditional budget reforms have turned to statutory and Constitutional prohibitions as solutions. All of the following options to prohibit deficits and limit expenditure growth can be implemented either through changes in law--primarily amendments to the Congressional Budget Act of 1974--or through amendments to the U.S. Constitution.

Which route is chosen depends on a judgment of the strength of the prohibition needed to overcome the pressures for expendi-

^{3/} Aaron Wildavsky, How To Limit Government Spending (Berkeley: University of California, 1980).

ture growth and deficits. Statutory prohibitions could be overturned by working majorities of the House and Senate and Presidential agreement, or, in the case of a Presidential veto, by a two-thirds vote of each House. Constitutional prohibitions, on the other hand, could only be overturned through a new Constitutional amendment. Such action would require two-thirds votes of the House and the Senate and the agreement of three-quarters of the state legislatures.

The advantage of the statutory route, therefore, is that it would be relatively easy to modify if the prohibition should prove to be damaging to the economy or contrary to changing sentiments of the Congress and the public. ^{4/} Its disadvantage is that it might be so easy to modify as to be ineffective. Conversely, the advantage of a Constitutional amendment is that it would have a better chance of containing the pressures toward spending growth and deficits. But, once implemented, a Constitutional amendment would be less flexible to changing economic and political circumstances.

Requirement for Concurrent Majorities

As indicated at the beginning of this chapter, the American political system operates largely through simple majorities or pluralities, both at the ballot box and in the Congress. The U.S. Constitution requires a Congressional vote greater than a simple (concurrent) majority in only seven instances--expulsion of a Member, passage of vetoed bills, removal of political disabilities, amendments to the Constitution, Senate ratification of treaties, declaring the President unable to perform the duties of his office, and convicting an impeached federal officer. ^{5/} Of these, only the two-thirds vote required for ratification can in

^{4/} Arthur F. Burns has recommended a statutory prohibition to test its workability. See Arthur F. Burns, "Statement on the Proposed Constitutional Requirement of a Balanced Budget," before the Subcommittee on Monopolies and Commercial Law of the House Committee on the Judiciary, 96:1 (March 27, 1979).

^{5/} Concerning the removal of political disabilities, Section 3 of the Fourteenth Amendment to the U.S. Constitution states:

No person shall be a Senator or Representative in Congress, or elector of President and Vice President, or hold any office, civil or military, under the